Unit 3. Elasticity

Quiz

1. If a 3 percent change in price leads to a 5 percent increase in the quantity supplied,

A. supply is unit elastic
B. the slope of the supply curve is less than one
C. the slope of the supply curve is greater than one
D. supply is elastic
E. supply is inelastic

2. Normal goods always have a/an

A. price elastic demand curve
B. price inelastic demand curve
C. price elastic supply curve
D. negative income elasticity of demand
E. positive income elasticity of demand

3. When the cross-price elasticity of demand is negative (the law of demand is valid), the goods in question are necessarily

A. normal
B. inferior
C. complements
D. substitutes
E. luxuries

4. Let's plot price at the vertical axis of a graph and quantity demanded at the horizontal axis. Price elasticity of demand is zero

A. in the intercept of linear demand curve with the horizontal axis
B. at every point of a horizontal demand curve
C. at every point of a hyperbolic demand curve
D. answers A and B are true
E. all of the above.

5. If price elasticity of demand is greater than one in absolute value, it follows that

A. cutting down the product’s price will reduce total expenditures of consumers

B. cutting down the product’s price will raise total revenues of producers

C. 21 % change in price will cause 15% change in demand

D. answers A and C are correct

E. answers B and C are correct.

6. Assume a consumer finds that his total expenditure on compact disks stays the same after the price of compact disks declines, other things being equal. Which of the following is true for this price change?

A. Compact disks are inferior goods to this consumer

B. The consumer’s demand for compact disks increased in response to the price change

C. The consumer’s demand for compact disks is perfectly price elastic

D. The consumer’s demand for compact disks is perfectly price inelastic

E. The consumer’s demand for compact disks is unit price elastic

7. A tax is most likely to be paid by the seller when the:

A. demand is elastic and supply is inelastic.

B. demand is inelastic and supply is elastic.

C. tax is levied on the seller.

D. supply and demand are elastic.

E. supply and demand are inelastic

8. All else equal, a binding price floor will cause less of a surplus if:

A. both supply and demand are inelastic.

B. both supply and demand are elastic.

C. supply is elastic, but demand is inelastic.

D. supply is inelastic, but demand is elastic.

E. none of the above: A price floor won't cause a surplus.

9. Wayne’s cross-price elasticity of demand for peanuts with respect to the price of bananas is -0,44. This means that, for Wayne,

peanuts and bananas are _______________ and that a reduction in supply of bananas would cause _______________ his peanut demand curve.

A. Complements; a rightward shift of

B. Complements; a movement along

C. Complements; a leftward shift of

D. Substitutes; a rightward shift of

E. Substitutes; a leftward shift of

10. Demand for a good is likely to be more elastic:

A. the smaller the fraction of consumer income absorbed by the good

B. in the short run than in the long run

C. the more broadly defined the good

D. the greater the number of available substitutes for the good